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3 March 1967

MEMORANDUM FOR: The Director

SUBJECT : The Fiat Report

The Origins of the Report11 May 1966

ONR issued a SECRET Intelligence Memorandum (CIA/RR EM 66-16), Fiat-USER Automotive Agreement. A copy and its distribution list is attached at Tab A. According to [redacted]

[redacted] copies of the Intelligence Memorandum were distributed to the principals of the Senior Interdepartmental Group (SIG) before their 31 May meeting.

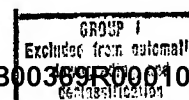
31 May 1966

Attached at Tab B is a copy of the Record of Agreements and Decisions of the SIG meeting of 31 May. The Director, CIA, is listed among those present. In brief: the SIG agreed that the Export-Import Bank loan to the Italians would be in the U.S. interest. State was to prepare a paper for the President setting forth the alternatives and stating the SIG position. If the President agreed, appropriate members of the Congress would be informed. State was to prepare a talking-point paper for use in briefing members of the Congress. CIA, in collaboration with Mr. Anthony Solomon of State, would prepare a study of U.S. and certain Western European countries for the purpose of showing a curve of investments accompanying or following a sharp rise in automobile production, and the resource implications thereof.

1 June 1966

[redacted] Acting Director, Research and Reports, sent a memorandum to Chief, Economic Research, ONR [redacted], informing him that Anthony Solomon, Assistant Secretary of State for Economic Affairs, had called that morning to request a quick study on the implications of the Soviet decision to mass-produce automobiles. The memorandum reads, in part:

"The question arose at the Tuesday meeting of the Senior Interdepartmental Group with Mr. Rostov making the initial request to Admiral Raborn. . . . The use that this study will be put to is not only for the immediate question of the Export-Import Bank loan but also the question of the export of the steel mill from the U.S. and general assistance on East-West trade policy. [redacted] stated that it would be highly

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desirable for the study to be unclassified or for an unclassified version to be prepared so that it could be released by the President to the Congress and to the press if desired."

A copy of [] memorandum was routed to [] in the AD/I's office. [] attached a backslip that reads:

"This seems to be the SIG matter mentioned by the DCI this morning. Postow wants OIR to study and report on the implications of the Soviet decision to mass-produce automobiles, including the effect on resources allocation. Due: 8-10 June"

There is no reference to this topic in the minutes of the Director's morning meeting of 1 June 1966.

22 June 1966

Attached at Tab C is a copy (regrettably a rather poor one) of a memorandum for the President from Secretary Rusk. Rusk discusses the advantages and disadvantages of the transaction. He notes that, "There may well be Congressional criticism." He lists the choices open and states the SIG's recommendation:

"The senior levels of the Department of State, DOD, CIA, Commerce, Treasury, and the Export-Import Bank have agreed unanimously that choice #2 would be the most desirable US policy"

Choice #2 was to "Advise the Export-Import Bank to go ahead with the loan, and informally notify Congress."

The Release of the Report to the Banking and Currency Committee 10 June 1966

William H. Morell, Director, Research and Reports, sent a memorandum to Anthony H. Solomon, Assistant Secretary, Bureau of Economic Affairs, Department of State. It reads:

"In response to your request to this Office of 3 June (sic), I am pleased to enclose ten copies of our preliminary report, 'Impact of the New Soviet Automobile Program.' This report should be handled as unclassified unless specific attribution is given to this Agency."

A copy of the preliminary report is attached at Tab D.

1 July 1966

Journal entry, Office of Legislative Council, signed by [] Assistant Legislative Council:

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desirable for the study to be unclassified or for an unclassified version to be prepared so that it could be released by the President to the Congress and to the press if desired."

A copy of [] memorandum was routed to [] in the DD/I's office. [] attached a buckslip that reads:

"This seems to be the SSI matter mentioned by the DCI this morning. Rostow wants CIA to study and report on the implications of the Soviet decision to mass-produce automobiles, including the effect on resources allocation. Date: 8-10 June"

There is no reference to this topic in the minutes of the Director's morning meeting of 1 June 1966.

22 June 1966

Attached at Tab C is a copy (regrettably a rather poor one) of a memorandum for the President from Secretary Rusk. Rusk discusses the advantages and disadvantages of the transaction. He notes that, "There may well be Congressional criticism." He lists the choices open and states the SSI's recommendations:

"The senior levels of the Department of State, DOD, CIA, Commerce, Treasury, and the Export-Import Bank have agreed unanimously that choice #2 would be the most desirable US policy . . ."

Choice #2 was to "Advise the Export-Import Bank to go ahead with the loan, and informally notify Congress."

The Release of the Report to the Banking and Currency Committee

30 June 1966

William M. Marcell, Director, Research and Reports, sent a memorandum to Anthony M. Solomon, Assistant Secretary, Bureau of Economic Affairs, Department of State. It reads:

"In response to your request to this Office of 3 June (sic), I am pleased to enclose ten copies of our preliminary report, 'Impact of the New Soviet Automobile Program.' This report should be handled as unclassified unless specific attribution is given to this Agency."

A copy of the preliminary report is attached at Tab D.

1 July 1966

Journal entry, Office of Legislative Counsel, signed by [] Assistant Legislative Counsel:

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"Mr. Morrell, D/CRR, called concerning a document OHR is preparing for State Department in connection with the Soviet-Piet arrangement. Mr. Morrell said that the State Department proposes to use this document on the hill in discussing this proposal with members of congress. Mr. Morrell wished to raise the question as to the proper handling of this from the congressional relations standpoint. I suggested that this be discussed with Mr. Helms at the 9:00 meeting."

5 July 1966

Extract from the minutes of the Director's morning meeting:

"Houston reported a State Department request to use an OHR paper concerning FIAT's arrangements with the Soviets in taking soundings on Capitol Hill in connection with FIAT application to the Export-Import Bank. DCI directed that the paper if used be clearly marked as an Agency paper."

11 July 1966

Bucklip from William E. Morrell, Director, Research and Reports, to Lawrence Houston, General Counsel:

"You indicated that you wanted to look at this paper and to send an advance copy over to MacArthur's staff in State. I would appreciate a call as soon as you find out whether or not we are to have additional copies for yours or State's distribution."

The bucklip forwarded three copies of a report entitled USSR: About to Enter the Automotive Age? This version was a cut-and-paste revision of the preliminary report sent to State on 10 June and, from a hasty examination, appears to be identical with the final, published version. A copy is attached at Tab B.

Bucklip from Lawrence R. Houston to Mr. Paul H. Miller, Office of Congressional Relations, Department of State:

"The attached paper on Russian plans for increasing automobile production is the version prepared against the possibility that you will want to use such an analysis in connection with any presentations to the Congress. You will note it is completely unclassified and is specifically attributed to the Central Intelligence Agency. If you do want to use this, please let me know and we can either get copies to you or can take the copies to whatever committee staffs you believe would be appropriate."

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16 August 1966

The date of formal dissemination of the final, published version of OER's Intelligence Report (CIA/IR IR 66-13), USSR: About to Enter the Automotive Age? A copy of the report, together with its distribution lists, is attached at Tab F.

1 September 1966

Memorandum for the record prepared by [redacted] Acting Director, Research and Reports. It reads, in part:

25X1

"The initial OER report on the probable impact of implementing the Soviet plans to expand automobile production . . . was undertaken at the request of the Assistant Secretary of State for Economic Affairs, Anthony Solomon. Earlier in May, OER had produced a classified intelligence memorandum reporting the details of the FIAT-USSR automotive agreement. The question of impact had arisen at a meeting of the Senior Interdepartmental Group on 31 May Mr. Solomon asked that the CIA report be unclassified, so that extracts could be made public in the event that the White House decided to grant the export licenses. Ten copies of the initial unclassified report were forwarded to Mr. Solomon on 10 June. This report did not carry a CIA identification, and we are not certain of the distribution given to its contents by the Department of State. A more detailed analysis, also unclassified, was issued as a standard CIA report in July, entitled USSR: About to Enter the Automotive Age? This follow-up study was given general distribution within the US Government"

29 November 1966

Journal entry, Office of Legislative Counsel, prepared for signature by John E. Warner, Legislative Counsel:

"Mr. Morell, OER, called to say that Jim Colbert, an economist in the Office of Soviet Union Affairs, Department of State, had been in touch with him concerning State's using OER's paper on "The USSR/FIAT Agreement" with several congressmen including Representative Ashley. (This came up once before in July 1966 when we were in touch with State's Congressional Relations Office on possible use of this paper on the Hill.) I told Mr. Morell that I would be in touch with Mr. Colbert and the State Congressional Relations Office to be sure that this was handled in accordance with the arrangements previously made.

"Later in the day, I talked with Mr. Colbert and suggested that he check with Ambassador MacArthur's office in connection with the use of the Fiat paper on the Hill adding that it had been

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previously agreed that this paper could be used by the Department with attribution to the Agency."

1 December 1966

Journal entry, Office of Legislative Counsel, prepared for signature by John S. Warner, Legislative Counsel:

"At his request, make arrangement with OIR to send Mr. James Colbert, State Department, six copies of the OIR publication "USSR: About to Enter the Automotive Age?"

2 December 1966

The distribution list for the report shows "6 copies to Congressman Ashley via State, James Colbert, EUR/ECV."

27 December 1966

Journal entry, Office of Legislative Counsel, prepared for the signature of [] Assistant Legislative Counsel:

"Mr. James Colbert, State Department, called with further reference to the OIR study on the USSR-FIAT agreement. Colbert said the Ashley Subcommittee, of the House Banking and Currency Committee, had been very favorably impressed by the study and would like to include the study in one of its reports. It was agreed that Richard Cook, of the Subcommittee staff, should contact us directly on this. I have discussed this with [] and Mr. Proctor neither of whom has any objection to publication of the study with attribution."

28 December 1966

Extract from the minutes of the Director's morning meeting. Admiral Taylor presided.

[] for Warner reported that Congressman Ashley, a member of the House Banking and Currency Committee, showed favorable interest in the SO/I intelligence report USSR: About to Enter the Automotive Age? DDCI asked for a copy of this report."

Journal entry, Office of Legislative Counsel, signed by []

"Richard Cook, on the staff of the House Banking and Currency Committee, called concerning the interest of Representative Ashley and his Subcommittee on International Trade in printing in one of its reports OIR's study "USSR: About to Enter the Automotive Age?"

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I told Mr. Cook I anticipated no problems in their printing this with attribution to the Agency.

10 January 1967

Journal entry, Office of Legislative Counsel, prepared for the signature of John S. Warner, Legislative Counsel:

"Reflecting on earlier conversations regarding the House Banking and Currency Subcommittee's use of the OHR report, it was agreed with Mr. Richard Cook, of the Subcommittee staff, that the report would be included without the two caveats which had appeared on the cover page regarding dissemination and bearing its original publication date."

18 January 1967

Extract from a memorandum for the Deputy Director for Intelligence from William H. Morrell, Director, Research and Reports, subject: "Soviet and Soviet Column of 18 January 1967 entitled 'Machine Tools for Russia'";

"Six copies of the unclassified CIA report were transmitted on 2 December 1966 to Mr. Colbert, for further transmittal to Representative Ashley of the House Banking Committee, one of the Representatives who made the trip to the USSR. This was done with the advice and consent of [redacted] of the Office of the Legislative Counsel, who was sent a copy on 30 November. Congressman Ashley wanted to use the report as an appendix to his own report and got approval from [redacted] to do so."

25X1

25X1

20 January 1967

Letter to the Director from Rep. James Harvey (Rep., Mich.), a member of the House Banking and Currency Committee, asking for an official response on the proposed Export-Import Bank loan for machine tools to be used in a new automobile plant in the Soviet Union. A copy of the letter and a memorandum for the record prepared by William H. Morrell, Director, Research and Reports, commenting on it are attached at Tab G.

23 January 1967

Journal entry, Office of Legislative Counsel, signed by John S. Warner:

"Talked with Richard Cook, of the House Banking and Currency Committee staff, and inquired as to the status of the Ashley Subcommittee report which will contain the OHR paper on the USSR and the automotive exp. I pointed out to Cook (as I had done before) that being an unclassified paper, this study was in the public

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domain, was in the hands of several members of Congress and in view of the attention focused on it by the Evans-Rovak column, conceivably could be printed by someone else having access to it. He acknowledged that the Evans-Rovak column had been sparked by conversations with the Subcommittee and explained that the errors in the article appeared despite the Subcommittee's admissions in these areas. Cook said if the Agency received any press inquiries regarding this, that they would have no objection to our referring the sources of the inquiries to them.

"I mentioned to Cook the letter we had received from Representative Harvey . . . regarding the proposed loan for the FIAT plant. He said he felt we could handle this adequately with Harvey in a meeting and without a written reply."

24 January 1967

Addendum to journal, Office of Legislative Counsel, signed by John S. Warner, Legislative Counsel:

"Representative Glenard P. Lipscomb was briefed on East-West trade matter for about two hours. Present were: William Strell, [redacted] and John S. Warner. Mr. Lipscomb also indicated that one of the members of the House Banking and Currency Committee which has a copy of the Fiat Report apparently is interpreting it differently than he, Lipscomb, interprets it. (Strell and I agreed that we ought to follow up and possibly look at their draft report which we will do.)."

2 February 1967

Journal entry, Office of Legislative Counsel, author of the entry is not indicated:

"Met with Representative Thomas Ashley for the purpose of assuring that, as Chairman of the International Trade Subcommittee of the House Banking and Currency Committee, he was fully aware of our dealings with Richard Cook, Minority Counsel, with regard to the inclusion of the ORR report on 'The USSR: About to Enter the Automotive Age?' in an upcoming Subcommittee report. Mr. Ashley said he was fully aware of Cook's work in this regard, that Cook was acting in accordance with instructions from him and that there was no majority/minority staff problem within the Banking and Currency Committee."

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1 March 1967

Item appearing on page one of the Washington Post:

"A House subcommittee has endorsed a \$50 million Export-Import Bank credit to allow the Fiat Co. of Italy to buy U.S. machine tools for the construction of an automobile factory in the Soviet Union.

"The bipartisan House group said the Pentagon, the State Department and other Federal agencies favored the credit, and the Central Intelligence Agency, which investigated the matter, has raised no objections.

"The factory, to be built by Fiat for the Soviet government, involves an initial Soviet outlay of \$1.2 billion."

The Authors of the Report

The transmittal form that forwarded the draft report for review, a copy of which is attached at Tab X, lists the contributing analysts as:



According to [redacted] then Chief, Resources and Industries Division, the writing of the report was a joint effort under the supervision of [redacted] GS-15, then Chief, Manufacturing Branch, Resources and Industries Division. The four other "contributing" analysts were members of the Manufacturing Branch. The "coordinating" analysts actually prepared contributions to the report on their particular specialties.

The Reviewers of the Report

The copy of the completed form used to transmit the draft report for review, which is attached at Tab X, is addressed to the Chief, Economic Research Area, through the Chief, Planning and Review Staff. There is a handwritten comment at the bottom of the form that reads:

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"Project sent to Ch/R and Ch/Z simultaneously." Ch/Z is the symbol for Chief, Economic Research Area. Ch/R is the symbol for Chief, Resources and Industries Division.

The narrative comment on the transmittal form states that the report "has been revised in light of some additional research we have done and to reflect comments and suggestions of Chief, ERA, Chief, D/R, and Messrs. Lindstrom and Gilbert of State."

25X1 [redacted] was Chief, Economic Research Area, at the time the report was written. He is on sabbatical but just happened to be in the office on 3 March. He distinctly recalls having participated in the reviewing of the report.

25X1 [redacted] Deputy Director of ORR, states that he participated in the review of the report and made several revisions in it.

25X1 William H. Morrell, Director, Research and Reports, is out of the country and consequently cannot be interviewed. [redacted] is positive that Morrell did review the report. We have some confirmation of this from [redacted] in the DO/I's office. [redacted] recalls that Morrell discussed the report with him on several occasions before it was published. [redacted] himself reviewed the report but only after it was in print.

25X1 [redacted] was then Chief, Resources and Industries Division, ORR. The report was prepared in one of the branches of his division, and he participated extensively in its review.

25X1 [redacted] who was then Executive for Policy Support and is now Chief, Economic Research, ORR, states that he reviewed the classified Ping report of May 1966. He believes he may have reviewed the unclassified report with which we are now concerned, but he has no specific recollection of having done so.

25X1 [redacted] through whom the draft was routed, was then and still is Chief, Planning and Review Staff, ORR. He states that he did not personally review the draft.

25X1 The broad-scale dissemination of the report was begun on 15 and 16 August 1966. Five copies of the published report were forwarded to the Office of the DO/I on 9 August 1966. Edward N. Proctor, Acting Deputy Director for Intelligence, states that he read the report when it was received. He believes that R. Jack Smith, Deputy Director for Intelligence, was away and did not read the report at that time. As we have mentioned earlier, [redacted] then a member of the DO/I Executive Staff, reviewed the published report. We cannot reliably determine who else might have read the report in the Office of the DO/I. [redacted] states that it is unlikely that it was read carefully by any others, because there were no other appropriate reviewing officers.

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Two copies of the published report were forwarded to OGI on 12 August 1966. Neither of the two most senior officers of OGI is immediately available for interview. We decided not to delay submission of this report to you pending the results of interviews of them. If either can contribute significantly to this summary of the review of the Fiat report, we will forward a supplementary report to you.

The Dissemination Made of the Report

The distribution lists for the report, which are attached at Tab F, list the total number of copies of the report as 810. We cannot adequately summarize so massive a dissemination. These are points that struck us as being significant:

It was given an "elite" distribution on 16 August 1966 to quite senior officials of the Government under individually addressed transmittal memorandums.

One hundred copies were initially distributed to Domestic Contact Service. According to [redacted] the recipient, the reports were fanned out to DCS field offices. A few copies were given to officials of the automobile industry in Detroit.

A 231-copy distribution was made to the academic community.

One copy was sent to William Eader of the staff of the Foreign Relations Committee on 1 September 1966.

Six copies were sent to Congressman Ashley via State, James Colbert, on 2 December 1966.

One copy was given to [redacted] DD/OSR For Senator Percy via L.C." on 17 January 1967.

Congressman Lipscomb has a copy, or has read one, but we cannot discover from the written records available to us how it reached him.

[redacted]
Acting Inspector General

cc: DDCI

Attachments

Tabs A through H

O/IG/ [redacted] lcp (3 March 67)

Distribution:

Orig. & 1 - Addressee

Approved For Release 2004/05/05 : CIA-RDP69B00369R000100240110-7

1 - ER

W/Att. (only)

1 - 10

1 - IG Subject

1 - IG Chrono

1 - KEG Chrono, 1 - Stayback

MISSING PAGE

ORIGINAL DOCUMENT MISSING PAGE(S):

Attachments